AGRICULTURAL SAFETY NET PROGRAMS IN ONTARIO

Prepared
By

Policy and Programs Branch
Policy and Farm Finance Division

Ontario Ministry of Agriculture, Food
and Rural Affairs (OMAFRA)
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AGRICULTURAL SAFETY NET PROGRAMS IN ONTARIO

Objective

To provide Ontario producers with the tools to reduce the impact of production and market risks on farm income. Safety net programs are designed to ensure ongoing viability of the farm business by reducing fluctuations in farm income.

Introduction

Producers today face an agricultural economy that is radically different from that which existed just a few years ago. Furthermore, the changes occurring in agriculture are continuing to escalate, resulting in both new opportunities and challenges. One of the foremost challenges is a risk environment that requires new and improved risk management tools and knowledge.

There are many risk management tools available to Ontario farmers to reduce the risk of unpredictable decreases in farm income. Over the years, Ontario has developed a package of comprehensive risk management programs to help producers in this province to effectively manage their risks. However, these risk management strategies cannot be considered in isolation. For example, there are some alternative private risk management strategies a producer can implement (such as forward contracting, futures and options, etc.) that will limit fluctuations in farm income in addition to or instead of publicly funded safety net programs.

This paper deals exclusively with government run risk management tools and the programs currently available to Ontario farmers. These programs attempt to reduce the impact of unexpected drops in income due to output price fluctuations, input cost increases and physical losses in commodity production. Ontario's safety net package includes:

- Net Income Stabilization Account (NISA)
- Crop Insurance (CI)
- Market Revenue Insurance (MRI) Program
- Self Directed Risk Management (SDRM) Program
- Ontario Farm Income Disaster Program (OFIDP)
- Research and Development Program (R & D Fund)

NISA is designed to provide income stabilization through individualized accounts. Crop Insurance provides protection for farmers from yield variability caused by natural hazards. The MRI program offers protection to grain and oilseed producers from dramatic price declines. The SDRM program offers income protection to most edible horticultural crops. The Ontario Farm Income Disaster Program (OFIDP) provides targeted support to participating farmers in cases where their gross margins fall below

70% of their previous three-year average or their olympic 5-year average (dropping highest and lowest years). The purpose of Ontario's Research and Development Fund is to improve the long-term competitive position of the province and increase diversity in the agriculture and agri-food sector, as well as increase industry self-reliance. A brief description of each program is given below.

1. NET INCOME STABILIZATION ACCOUNT (NISA):

Legislation/Agreements

Federal-Provincial Agreement Establishing NISA
Canada-Ontario Enhanced Matching Contribution Agreement for NISA
Canada-Ontario Framework Agreement on Agricultural Risk Management

Program Design and Description

The Net Income Stabilization Account (NISA) was introduced for the 1990 tax year to provide long-term farm income stability. NISA is an agricultural safety net program, sponsored by the federal and provincial governments, designed to encourage individual producers to set money aside for use in periods of financial difficulty.

Producers can make a deposit of up to 3% of their eligible net sales (ENS)[1] annually and receive full government matching contributions. The annual ENS limit is $250,000. The provincial government matches 1%, while the federal government matches 2% of ENS. Government deposits earn interest at competitive rates; producer deposits earn interest at these same rates plus 3% in bonus interest. Producers can make additional deposits of up to 20% of ENS, but the government does not match these deposits. However, unmatched deposits still earn the bonus interest of 3% above the regular interest rates. Moreover, if a producer does not deposit the full 20% of their ENS, they can carry that entitlement forward for five years and still earn the 3% bonus interest.

In accordance with the Canada-Ontario Safety Nets Framework Agreement, and the base NISA program, the federal and provincial governments provide an additional 1% enhancement for all NISA eligible commodities and 2% for most edible horticultural crops in Ontario based on ENS. These are called NISA enhancement programs. NISA contribution rates (% of ENS) for basic NISA and enhancements programs from both levels of government and producer are presented in Table 1.

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[1] *Eligible net sales are calculated by subtracting purchases of qualifying commodities from the gross sales of qualifying commodities. Ineligible commodities include supply managed commodities (dairy, poultry and eggs)*

Table 1: NISA Contribution Rates in Ontario

Components	Contribution Rates (% of ENS)		
	Federal	Provincial	Producers
Basic NISA	2.0	1.0	3.0
Top-Up (General – All Eligible Commodities)	0.5	0.5	1.0
Sub-Total (for All Eligible Commodities)	**2.5**	**1.5**	**4.0**
Top-Up (Edible Horticulture)	1.0	1.0	2.0
Sub-Total (for All Edible Horticulture)	**3.5**	**2.5**	**6.0**

Two separate NISA accounts are maintained; one for producer deposits (Fund 1) which is held at a participating financial institution, and Fund 2 which is held in the federal Consolidated Revenue Fund. Fund 2 contains the government matching deposits and all accumulated interest on both Fund 1 and Fund 2. When a deposit is made by the producer into Fund 1, the government credits Fund 2 with a matching deposit. Withdrawals from the account are taken from Fund 2 first and then from Fund 1. Withdrawals from Fund 2 are taxable and withdrawals from Fund 1 are neither taxable nor tax deductible.

Participants can make a withdrawal if they are eligible based on a decrease in income under two withdrawal triggers: *The Stabilization Trigger* and *The Minimum Income Trigger*. Under *The Stabilization Trigger* withdrawals can be made when a producer's gross margin[2] falls below the average gross margin for the previous years (up to five years). Under *The Minimum Income Trigger* withdrawals can be made when a producer's net income from all sources falls below a minimum income threshold ($20,000 for individuals and $35,000 for families) plus the current year maximum matchable deposit.

Commodity Coverage

In Ontario, all commodities, excluding supply managed

Eligibility

To be eligible to participate in NISA, one must:

- file an income tax return reporting farming business income (or loss);
- open a NISA account at a participating financial institution; and
- meet the eligibility criteria for participating as an individual or through a corporation, cooperative, or communal organization, which files income tax returns.

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[2] *In the case of NISA, gross margin is determined by adding net sales of all agricultural commodities, plus income from contract work and machine rental, minus eligible expenses. Eligible expenses do not include rent, interest, wages and salaries or depreciation.*

Length of Program

Ongoing

Program Administrator

Agriculture and Agri-Food Canada / NISA Administration

Contact Person (OMAFRA)

Patricia Bany, Policy Advisor
Policy and Programs Branch
Ontario Ministry of Agriculture, Food and Rural Affairs
Tel: (519) 826-3245, Fax: (519) 826-3492

For more information...

Contact the NISA Administration toll-free at **1-800-665-6472**. You can also write to the NISA Administration at the following address:
NISA Administration
P.O. Box 6100
Winnipeg, Manitoba R3C 4N3
Fax: (204) 984-3717
Or visit the program on the web at www.agr.ca/nisa/welcome.html

2. CROP INSURANCE:

Legislation/Agreements

Canada-Ontario Crop Insurance Agreement
Crop Insurance Act (Ontario)
Farm Income Protection Act (Federal)
Canada-Ontario Framework Agreement on Agricultural Risk Management

Program Design and Description

Crop Insurance provides farmers with protection against yield reductions caused by natural hazards. Enrollment in the Crop Insurance program guarantees a producer a percentage of their average farm yield. If an insured peril causes a producer's harvested yield to be less than guaranteed production (average farm yield multiplied by the coverage level), the producer is indemnified for the shortfall.

Coverage Levels

The producer is given the option of choosing a coverage level (options ranging from 70% to 90%, depending on the crop) which best suits their needs. The 70%, 75%, or 80% coverage levels are offered for spring grain, white beans, colored beans, canola, spring wheat, sunflowers or popping corn (85% coverage is also available for some of these commodities if the producer meets certain claim ratios and other requirements). The 70% coverage level is offered for hemp fibre and hemp grain and fibre. The 80% or 85% coverage level is offered for corn, 80% or 90% for soybeans and 90% for corn silage. The higher the coverage level the higher the premium that is required to insure the crop.

Premium Structure

The federal and provincial governments each pay 25% of the total premium. Producers pay the remaining 50% of the premium cost. There is also a premium surcharge and discount system. Discounts apply if the producers' average claims have been less than the average claim rate for the commodity. A surcharge applies if they have been higher. The maximum annual surcharge is capped at plus 10% of the base rate while the maximum annual discount rate is capped at minus 20%. Crop insurance administrative costs are shared equally by the two levels of government. Administrative costs are not reflected in the premium.

Yield Determination

Average farm yield is calculated using a 10-year average for the farm. New customers are underwritten and assigned a 5-year beginning average farm yield on a per crop basis (based on area averages, soil type, topography, drainage and other criteria). Underwritten yields are included with actual yields until ten yields have elapsed. Extreme increases or decreases in yields are "buffered" or smoothed out if they change more than 30% from the average.

Insured Prices

Claims for grains and oilseed crops are settled at 100% of the floating price, except sunflowers, colored beans and popping corn which use a fixed insurance price. The insurance plans for corn and soybeans have both floating and fixed price options. The floating prices are typically determined from marketing board prices minus transportation and/or drying costs.

Commodity Coverage

Most grains and oilseeds, field fresh and processing vegetables and tree fruits. Currently, over 53 crops are eligible under the crop insurance program in Ontario. There are some enhanced features, such as, reseeding benefit, premium and standard new forage seeding plan and unseeded acreage benefits.

Eligibility

As per the guidelines contained in the Farm Income Protection Act and in accordance with specific provisions contained in the Crop Insurance Act.

All farmers, landlords, and sharecroppers who grow an eligible crop in Ontario are eligible to participate in the program.

Length of Program

Ongoing

Program Administrator

AGRICORP, an agency of the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA), is responsible for overall administration and delivery of the program.

Contact Person (OMAFRA)

Zahirul Islam, Economist
Policy and Programs Branch
Ontario Ministry of Agriculture, Food and Rural Affairs
Tel: (519) 826-3507, Fax: (519) 826-3492

For more information...

Contact AGRICORP toll-free at **1-888-247-4999**. You can also write to AGRICORP at the following address:
P.O. Box 3660
Station Central
Guelph, Ontario N1H 8M4
Or visit the program on the web at www.agricorp.com

3. MARKET REVENUE INSURANCE (MRI):

Legislation/Agreements

Canada-Ontario Market Revenue Agreement
Canada-Ontario Framework Agreement on Agricultural Risk Management

Program Design and Description

This Ontario based companion program, originating from the Gross Revenue Insurance Program under the Farm Income Protection Act, provides revenue protection against low market prices for eligible grain and oilseed crops in Ontario.

MRI is a separate program from Crop Insurance. A producer has the option to enroll in both programs. However, producers who participate in MRI must enroll all acres of all crops grown that are eligible for coverage under the program. This is not the case with crop insurance. The two levels of government pay the administrative costs for MRI.

The MRI support price for each eligible crop is 85% of the 15-year indexed average Ontario price. MRI payments are made when the average annual Ontario price for the current crop year is less than the support price. The payment per bushel or pound, depending on the commodity, is the difference between the support price and the average annual price multiplied by the guaranteed production level. Guaranteed production under MRI is 85% of the producer's average farm yield.

No MRI premiums are required. Producers receive two-thirds of the payment, with the other one-third deducted in lieu of premiums.

Commodity Coverage

Winter Wheat, Red Spring Wheat, Spring Grain, Farm Fed Grains (including Corn Silage), Soybeans, Canola, Sun Flowers, Corn, Seed Corn, Popping Corn, White Beans, Colored Beans, Faba Beans, Field Peas, Flax Seed and Triticale

Eligibility

As per the guidelines contained in the Farm Income Protection Act and in accordance with specific provisions contained in the Canada-Ontario Market Revenue Agreement.

Producers who produce eligible grain and oilseed crops in Ontario are eligible to participate in the program.

Length of Program

The federal-provincial agreement covered the 1996 to 2000 crop years.

Program Administrator

AGRICORP, an agency of OMAFRA, is responsible for administration and delivery of the program.

Contact Person (OMAFRA)

Gregory DeVos, Economist
Policy and Programs Branch
Ontario Ministry of Agriculture, Food and Rural Affairs
Tel: (519) 826-3212, Fax: (519) 826-3492

For more information...

Contact AGRICORP toll-free at **1-888-247-4999**. You can also write to AGRICORP at the following address:
P.O. Box 3660
Station Central
Guelph, Ontario N1H 8M4
Or visit the program on the web at www.agricorp.com

4. SELF DIRECTED RISK MANAGEMENT (SDRM):

Legislation/Agreements

Canada-Ontario Self-Directed Risk Management Program Agreement
Canada-Ontario Framework Agreement on Agricultural Risk Management

Program Design and Description

The Self-Directed Risk Management (SDRM) program was originally a three-year pilot project for the 1996, 1997 and 1998 tax years. This pilot was extended for the 1999 taxation year. Beginning with the 2000 taxation year, the program became a permanent alternative to the Crop Insurance program for Ontario horticulture producers. The program operates as a Top-Up to the Net Income Stabilization Account (NISA) program. Ministry staff are working with the industry to make SDRM a stand-alone program.

The SDRM program is an Ontario-specific "companion program" under a Canada-Ontario safety net agreement. SDRM is a cost shared initiative of the federal and provincial governments. The contribution rate was increased from 1% federal – 1% provincial – 3% producer to 2% federal- 2% provincial - 4% producer for the 2000 taxation year. SDRM enables producers to make additional deposits to their NISA accounts of up to 4% of ENS[3]. The federal and provincial governments match this contribution. Currently, the annual ENS limit is $250,000 for a participant and the individual lifetime account balance limit is $375,000 for NISA accounts including SDRM deposits.

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[3] *Eligible Net Sales (ENS) is defined as the sales of qualifying commodities minus the purchase of qualifying commodities.*

Contributions under SDRM are maintained in the two separate NISA accounts; one for producer deposits (Fund 1) and one for government deposits (Fund 2). Market interest rates are paid on the balances of both accounts and a 3% interest bonus is paid each year on the balance in the producer account (Fund 1).

Two triggers are used for withdrawing funds from a SDRM account. The two triggers are: (a) The Stabilization Trigger - a withdrawal is triggered when a participant's current year's gross margin[4] falls below the average from the previous years (up to 5 years); or (b) The Minimum Income Trigger - a withdrawal is triggered when a participant's net income falls below a minimum income threshold ($20,000 for individuals and $35,000 for families) plus the current year maximum matchable deposit.

Commodity Coverage

Most edible horticulture crops are eligible except nuts, mushrooms, and the five processing vegetable crops (tomatoes, sweet corn, green and wax beans, lima beans and green peas) under the jurisdiction of the Ontario Processing Vegetable Growers. Effective from the 1998 stabilization year, eight minor processing vegetables (cabbage, carrots, cauliflower, cucumbers, peppers, red beets, pumpkin and squash) and maple products became eligible under SDRM.

Eligibility

As per the guidelines and specific provisions contained in the Canada-Ontario Self-Directed Risk Management Program Agreement, the producers' eligibility criteria are similar to NISA except:

- Producers cannot enroll eligible commodities in crop insurance; and
- Producers must have contributed the maximum amount to their NISA account to be eligible for additional contributions under SDRM.

Length of Program

Ongoing

Program Administrator

Agriculture and Agri-Food Canada / NISA Administration

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[4] *Gross margin is determined by adding net sales of all agricultural commodities, plus income from contract work and machine rental, minus eligible expenses. Eligible expenses do not include rent, interest, wages and salaries or depreciation.*

Contact Person (OMAFRA)

Patricia Bany, Policy Advisor
Policy and Programs Branch
Ontario Ministry of Agriculture, Food and Rural Affairs
Tel: (519) 826-3245, Fax: (519) 826-3492

For more information...

Contact the NISA Administration toll-free at **1-800-665-6472**. You can also write to the NISA Administration at the following address:
NISA Administration
P.O. Box 6100
Winnipeg, Manitoba R3C 4N3
Fax: (204) 984-3717
Or visit the program on the web at www.agr.ca/nisa/welcome.html

5. ONTARIO FARM INCOME DISASTER PROGRAM (OFIDP):

Legislation/Agreements

Federal-Provincial Agreement Establishing the Canadian Farm Income Program
Canada-Ontario Framework Agreement on Agricultural Risk Management

Program Design and Description

The Ontario Farm Income Disaster Program (OFIDP) is the successor of the Ontario Whole Farm Relief Program (OWFRP). The OWFRP was announced on December 10, 1998 to assist farmers suffering from extremely low commodity prices and weather-related disasters for the 1998 and 1999 calendar years. The OFIDP has replaced the OWFRP and is a three-year (for calendar year 2000, 2001 and 2002) federal-provincial initiative, which is administered by the province for Ontario farmers in conjunction with the Canadian Farm Income Program. Most of the basic features of the OFIDP remain the same as the OWFRP.

The OFIDP provides a measure of stability against fluctuations in farmers program margins, which is the difference between allowable income and allowable expenses, adjusted for inventory, accounts payable and accounts receivable. The OFIDP program provides targeted support to participating farmers in cases where their claim year gross margins fall below 70% of their previous 3-year average or their olympic 5-year average (dropping highest and lowest years) called the reference margin. Negative margins in the reference period are treated as negatives, with negative margins in the claim year treated as zero. A linkage to NISA results in a 3% deduction from eligible farmer's OFIDP payment if the farmer participated in NISA. To be eligible, a farmer must have a valid Ontario Farm Business Registration number. There is no administrative or processing fee

for the OFIDP program. This program is in addition to existing safety net programs in Ontario. The program is being funded 60% by the Government of Canada and 40% by the province.

Eligibility

As stated in the Federal-Provincial Agreement Establishing the Canadian Farm Income Program subsection 5.1, applicants must have completed a minimum of six consecutive months of farming activity and completed a production cycle in the claim year in order to be eligible to apply for a payment under the program.

Length of Program

OFIDP is a three-year (2000, 2001, and 2002 calendar year) federal-provincial initiative.

Program Administrator

Ontario Ministry of Agriculture, Food and Rural Affair's Policy & Farm Finance Division is responsible for the administration of the program in the province.

Contact Person (OMAFRA)

Stephen Duff, Economic and Policy Coordinator
Policy and Programs Branch
Ontario Ministry of Agriculture, Food and Rural Affairs
Tel: (519) 826-3468, Fax: (519) 826-4334

For more information...

Further information is available at **1-877-838-5144** (toll-free). You can also write to program administrators at the following address:
Ontario Farm Income Disaster Program (OFIDP)
Ontario Ministry of Agriculture, Food and Rural Affairs
4th Floor N.W., 1 Stone Road West,
Guelph, Ontario N1G 4Y2
Fax Number: (519) 826-4334
Email: ofidp@omafra.gov.on.ca
Or visit the program on the web at www.gov.on.ca/omafra/english/policy/ofidp

6. CANADA –ONTARIO RESEARCH AND DEVELOPMENT COMPANION PROGRAM (R & D Fund):

Legislation/Agreements

Research and Development Delegation of Authority Agreement
Canada-Ontario Research and Development 2001 Companion Program Agreement
Canada-Ontario Framework Agreement on Agricultural Risk Management

Program Design and Description

The Ontario Research and Development Program is administered by the Agricultural Adaptation Council (AAC) at the request of the federal and provincial agriculture ministers on behalf of the Ontario Agricultural Commodity Council (OACC). The purpose of the fund is to improve the long-term competitive position and increase diversity in the agriculture and agri-food sector, as well as increase industry self-reliance, and self-determination. The AAC has the responsibility for administration, reporting and accountability of the approved projects. This money is allocated to non-supply managed farm groups for research and development projects. Funding is provided to projects that directly benefit Ontario producers and also address industry identified concerns. Each year about $3 million is provided by Agriculture and Agri-Food Canada out of the envelope for Ontario safety net programs to undertake research and development projects representing broad commodity sectors (field crops, red meats, horticulture and tobacco).

Eligibility

Projects that (a) address gaps in support for agriculture and food research and technology transfer; (b) include pilot activities, research and analysis designed to reduce cost, enhance sector diversity, increase yields, improve product quality or develop new products or markets; (c) are market oriented and applied; and (d) have industry support with the benefits of the research accruing to the Ontario agri-food sector.

Commodity Coverage

The research and development fund covers projects representing broad commodity sectors such as field crops, red meats, horticulture and tobacco. Currently, research and developments projects cover about 28 different commodities in the major commodity sectors.

Length of Program

The current program operates under a one-year contribution agreement. Funding for eligible contributions must be approved by March 31, 2000. However, provisions exist to extend the agreement if necessary.

Program Administrator

Under the Research and Development Delegation of Authority Agreement, Ontario has delegated administration responsibilities to the Agricultural Adaptation Council (AAC).

Contact Person (OMAFRA)*

James Reesor, Policy Advisor
Policy and Programs Branch
Ontario Ministry of Agriculture, Food and Rural Affairs
Tel: (519) 826-6726, Fax: (519) 826-3492

* Applicants should contact the AAC directly.

For more information...

Further information is available by contacting the Agricultural Adaptation Council at **1-519-822-7554**. You can also write to the following address:
Agricultural Adaptation Council
192 Nicklin Road
Guelph, Ontario, N1H 7L5
Or visit the AAC on the web at www.adaptcouncil.org